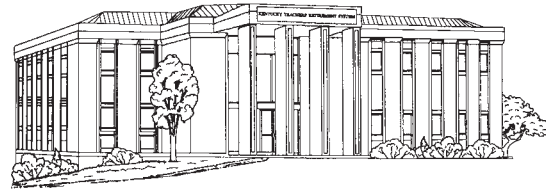


KTRS NEWSLETTER

TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY

ACTIVE MEMBER EDITION

June/July 2004



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Members Elect Trustee to KTRS Board

The election for the position on the KTRS Board of Trustees was conducted during May 2004. Mr. Gene Wilhoit, Chief State School Officer, has certified the results of the election to the KTRS Board of Trustees.



Dr. Zella Wells of Paintsville, in Johnson County, was elected to a four-year term as an active teacher member of the Board. Dr. Wells is a veteran administrator and former classroom teacher in the Johnson County School System. She is an active member of many education groups at the local, state, and national levels. Dr. Wells' term of office will be from July 1, 2004, through June 30, 2008.

Chair & Vice-Chair Elected to KTRS Board of Trustees

At the June 21, 2004, meeting of the Board of Trustees, Miss Virginia Murrell of Somerset was re-elected chair for the 2004-2005 fiscal year. Miss Murrell is a retired member of the Board and has spent most of her career as a teacher in the Bellevue Independent School System in northern Kentucky. Miss Murrell has served on the Board since 1988 and currently serves on the Insurance, Personnel and Scholarship Committees of the Board.

At this same meeting, Mr. Arthur Green, of Elkton, was elected as vice-chair for the 2004-2005 fiscal year. Mr. Green has served on the Board since 1996 and is currently an Agriculture teacher at Todd County Central High with over thirty years of teaching. Mr. Green currently serves on the Administrative Appeals, Nominating, Personnel, Legislative, Investment and Insurance Committees of the Board.



2004 LEGISLATIVE REMINDERS

A summary of some of the key points of retirement related legislation enacted during the 2004 Regular Session of the General Assembly is provided as follows:

Out-of-State Teaching and Peace Corps Service

Effective July 1, 2005, purchases of out-of-state teaching and Peace Corps service will be at full actuarial cost as are most other types of service credit purchases. If you have out-of-state teaching or Peace Corps service you may wish to contact the retirement system to obtain cost estimates under the current formula as well as under the full actuarial cost formula as the change will make the cost of out-of-state teaching and Peace Corps service more expensive for some and less expensive for others. On and after July 1, 2005, out-of-state teaching and Peace Corps service will no longer be purchasable under the current cost formula.

Federal Head Start Service

Federal Head Start service is now purchasable under the same formula as that used to calculate the cost of out-of-state teaching service. For many members, federal Head Start service is purchasable at a lower cost under the current out-of-state teaching service formula. It is important to note, however, that out-of-state teaching service, and, correspondingly, federal Head Start service, will change to full actuarial cost on July 1, 2005. Therefore, if you have federal Head Start service you may wish to contact the retirement system to obtain an estimate of the cost of purchasing this service under the current out-of-state teaching formula that will be available only during a limited time from July 13, 2004 through June 30, 2005. For some members, it will be cheaper to purchase federal Head Start service at full actuarial cost rather than under the out-of-state teaching service. Accordingly, it is very important for members who are considering purchasing federal Head Start service to contact the retirement system and compare costs. It is also important to remember that in-service transfers of tax-deferred monies cannot be used to purchase service credit purchasable at less than full actuarial cost. This can be an important factor in determining when you may want to purchase your federal Head Start service.

Tax-Deferred Installment Payments

KTRS is currently seeking a private letter ruling from the Internal Revenue Service that would allow members to purchase service credit by a monthly pre-tax payroll reduction. Although the retirement system is taking all steps necessary to obtain a favorable ruling as soon as possible, past experience with private letter ruling requests cautions us that the actual ruling may not be issued until a year or later from now.

Returning to Work in the Universities and Community Colleges after Retirement

Effective July 1, 2004, all retired members, regardless of the employer they retired from, will be equally subject to the same return-to-work conditions. In other words, all retired members returning to work in the universities and community colleges can teach up to 12 academic hours per fiscal year in the classroom or can serve up to 100 days per fiscal year in an administrative position. For the first year of retirement, as always, those persons retiring later than July 1 will be subject to a pro-rated number of hours or days that they can be employed. Members who return to work during the same school year in both a teaching and an administrative position in a university or community college can return with a pro-rated number of hours and days. Members who return to work during the same school year for both a university or community college and a local school district will also be subject to a pro-rated number of hours and days. Retired members returning to teach in both settings during the same school year, for example, will be limited to a pro-rated number of academic hours in the university or community college, and a pro-rated number of teaching days in the local school district.

Alternative Break in Service Requirements

Alternative breaks-in-service for retirees who wish to return to work in a KTRS-covered position became effective on July 1, 2004. It is the member's responsibility to elect an alternative break-in-service by completing and returning to KTRS the appropriate form. Please refer to the April/May 2004 Newsletter and contact KTRS for further details.

Modified Critical Shortage Program

The modified critical shortage program became effective July 1, 2004. This program permits a limited number of retirees to return to work, after a required break-in-service, in local school district positions that are deemed

to be critical shortage positions by the superintendent. Retired members returning to work under the critical shortage program contribute to the retirement system and earn post-retirement service credit that, if they vest, will pay them a second retirement allowance.

Cost of Living Adjustments

Although both the House of Representatives' and the Senate's versions of the budget included ad hoc Cost of Living Adjustments (COLA) for retirees for the fiscal years 2004-05 and 2005-06, the two chambers have yet to agree on a budget. The Commonwealth is currently being operated under the Governor's spending plan until a budget can be approved. The spending plan does not include funding for ad hoc COLA's. As such, the only COLA that can currently be applied to retirement allowances is the standard 1.5% COLA. KTRS remains hopeful that a budget will eventually be adopted that will provide retirees with the ad hoc COLA's requested for the upcoming two fiscal years.

One-time Opportunity to Change from an Optional Retirement Plan to KTRS

University and community college employees now have a one-time opportunity during their lifetimes to change from an optional retirement plan to KTRS as long as they are otherwise eligible to participate in KTRS. Individuals exercising this option will participate in KTRS prospectively only and cannot purchase as KTRS service previous service in which they participated in an optional retirement plan.

Miscellaneous Provisions

There are several miscellaneous legislative provisions in addition to those discussed above. One of these provisions, for example, will increase some retired members' Daily Wage Thresholds by applying Cost of Living Adjustments to their last annual compensation whenever it was earned, not just from their retirement date forward.

Important Notice

This newsletter provides only a summary of some of the more significant provisions enacted during the 2004 General Session and is intended for general informational purposes only. This summary does not contain all of the terms and detail of the actual legislation enacted by the General Assembly or of any other related KTRS law previously in existence. Final, official codification of this newly enacted legislation is still not available. For further details on any of the above items that might be of interest to you, please contact the retirement system.

*****ATTENTION*****

Do you have Out-of-State Teaching, Peace Corps or Federal Head Start Service?

Out-of-state teaching and Peace Corps service costs will change to full actuarial cost effective July 1, 2005. If you have out-of-state teaching or Peace Corps service, you may wish to contact the retirement system to compare the cost under the current formula as compared with the full actuarial cost formula. The cost will increase for some members when it changes to full actuarial cost on July 1, 2005. Federal Head Start service will be purchasable only under the current out-of-state teaching service formula from July 13, 2004 through June 30, 2005. For some members, the cost will be less under this formula than under the full actuarial cost formula (for some members it will be more). After June 30, 2005, federal Head Start service will be purchasable only at full actuarial cost. Remember, in-service transfers of tax-deferred monies cannot be used to purchase service credit that is purchasable at less than full actuarial cost. This could be an important factor in determining when you want to purchase your out-of-state teaching, Peace Corps or federal Head Start service. Contact KTRS for details.

*****ATTENTION*****

At the time of the printing of this newsletter, there is no approved budget for the 2004-2006 biennium. The adoption of the budget, whether by Special Session or during the 2005 Regular Session, could change the current status of legislation as set forth in this newsletter. Any material changes affecting the retirement system as a result of the adoption of a budget will be reported in subsequent newsletters.



THE POSITIVE IMPACT OF KTRS ON THE LOCAL & STATE ECONOMY

This is a first in a series of articles that will explore and highlight the value of KTRS to Kentucky's communities, schools and educators.

Kentucky Teachers' Retirement System distributed more than \$1 billion in benefits during the 2003-04 fiscal year. Since more than 93% of Kentucky's retired teachers live in Kentucky, the economic impact of KTRS annuities on the state's economy is tremendous. It would be difficult to identify a community or a business in Kentucky that is not positively affected by the incomes of retired teachers.

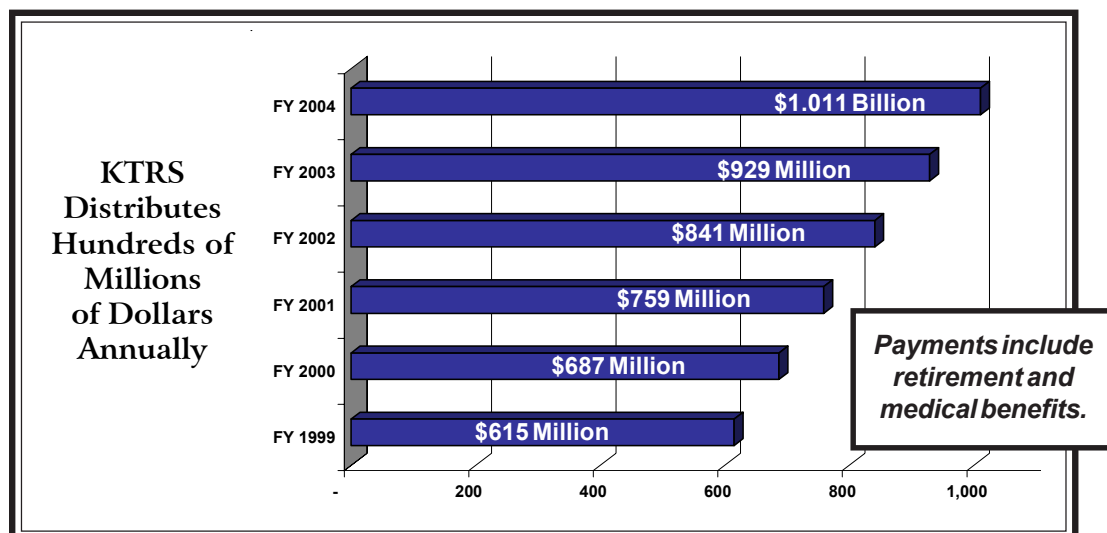
In many counties, the benefit payments distributed by the Retirement System are the equivalent to the payroll of one of the largest employers in the community. This is not only true in counties with low populations, where the System's annuity payments would equate to the second largest employer behind the school district, but also in the more populated areas. In the Greater Louisville area, the annuities distributed by the Retirement System equate to the payrolls of the sixth largest private employer or the fifth largest public employer.

Over the last five years, the annual benefit payments distributed by the System have increased by approximately \$400 million.

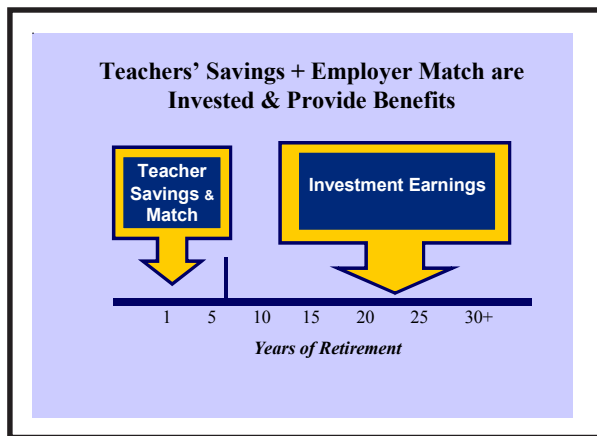
The benefit payment increases can be attributed primarily to the net increase of teachers retiring in addition to annuity increases for those already retired. If the \$400 million in increased benefit payments were equated to employment increases in the state, it would be 10,000 jobs paying an annual salary of \$40,000 or more than 13,300 jobs paying an annual salary of \$30,000. It is doubtful that any other entity in the state has had such an increasing and significant impact on Kentucky's economy over the last five years. During a period that, for the most part, could be characterized as an economic slowdown, the Retirement System was bolstering the state's economy by boosting annual distributions by \$400 million.

Thirty years ago large numbers of new teachers were hired during the expansions of vocational education and exceptional education programs. At the same time, the state also began reducing the number of children in each classroom. Many schools also were bursting at the seams with increasing school populations. The net result is that thirty years later a large group of career teachers are eligible to retire.

More than 12,000 teachers are currently eligible to retire although most will not retire immediately, since incentives have been established to keep experienced teachers in the classrooms. Despite the incentives, however, significant numbers



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of teachers will retire in upcoming years and will be drawing their savings on a monthly basis from KTRS which will result in further increases in retirement distributions and support for Kentucky's economy.

Value added to the Commonwealth

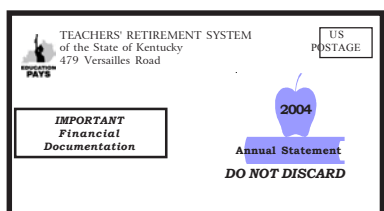
Who provides the funding for these payouts to retired educators?

Teachers during their careers save or contribute part of their salaries each month, most of which goes toward

their retirement. The balance of their contribution during their active career goes to pay the medical benefits of retired educators. The state matches the teachers' contributions.

The amount the state contributes during a member's career is equal to about 13% of the retirement benefits the member will draw during retirement, with 87% being paid from that member's savings plus the investment earnings of those contributions during the career of that teacher. Therefore, through the long-term investment of those savings, there are funds sufficient to provide retirement benefits for teachers, which in turn provides a significant long-term positive impact on the local and the state's economy, all at an incrementally small cost to the state.

Please Review Your 2004 Annual Statement



The Kentucky Teachers' Retirement System annual statements for fiscal year ending June 30, 2004, will be mailed in early September 2004. The accuracy of the information contained in this statement is important to your retirement and serves as the basis for preparing an estimate of your retirement benefits. The salary and service credit reflected on your statement was furnished by your employer. To assist members in maintaining accurate retirement accounts, KTRS will perform service credit audits on member accounts that will be eligible to retire in the next two years. **You can help by carefully**

reviewing your statement to assure its accuracy. Please pay particular attention to the total service credit ending balance at June 30, 2004. Members are entitled to receive a full year service credit if they have no more than five days without pay during a year. If you think your account may have an error, please contact your employer. Your employer will then notify KTRS of errors and/or omissions that need to be corrected.

Financial Markets Provide Solid Returns

The market value of the KTRS investment portfolio at this fiscal year end exceeds the year-end valuations achieved in the market during the late 1990's and early 2000 "bubble period". The portfolio had a market value as of June 30, 2004 of \$12.96 billion. The previous highest valuation at the end of a fiscal year was \$12.85 billion as of June 30, 2000. Following the retreat of the markets after the bubble period, the value of the portfolio had retreated to a year-end low of \$11.80 billion as of June 30, 2002 before recovering to current levels.

KENTUCKY TEACHERS' RETIREMENT SYSTEM MID-CAREER PLANNING WORKSHOPS

REGISTRATION
9:00 A.M. (Local Time)

SEMINAR
9:05 A.M.-Noon (Local Time)

Mid-Career Planning Workshops will be finalized and posted by August 15, 2004.
Please see web site at www.ktrs.ky.gov for upcoming dates.

KENTUCKY TEACHERS' RETIREMENT SYSTEM PRE-RETIREMENT SEMINARS

REGISTRATION
9:00 A.M. - 9:15 A.M.
(Local Time)

SEMINAR
9:15 A.M. - 1:00 P.M.
(Local Time)

You are invited to attend if you are minimum one year to five years maximum from retirement.

October 2, 2004
Rough River SRP
450 Lodge Road
Falls of Rough, Kentucky

November 6, 2004
Jenny Wiley SRP
Wilkinson/Stumbo Conf Ctr
75 Theatre Court
Prestonsburg, Kentucky

November 20, 2004
PINE MOUNTAIN SRP
CV Convention Center
1050 State Park Road
Pineville, Kentucky

December 4, 2004
Blue Licks Battlefield SRP
US 68
Mount Olivet, Kentucky

Mailed copy of newsletter
had incorrect SRP.

KTRS SEMINAR OR WORKSHOP PRE-REGISTRATION FORM

Pre-registration for all seminars is **NECESSARY** and offered on a first come, first served basis. Individual retirement estimates will **NOT** be available at these workshops/seminars. **Return this pre-registration form to KTRS or pre-register on-line at: www.ktrs.ky.gov**

This Pre-Registration is for: ☐ Mid-Career Workshop or ☐ Pre-Retirement Seminar

Name _____ Social Security Number _____ - _____ - _____
Address _____
City/State _____ ZIP Code _____
Name of Employer _____
Home Phone: (____) _____ Work Phone: (____) _____
Date of Workshop attending: _____ City of Workshop attending: _____

**** Guests are welcome if seating is available. Priority is given to KTRS Members ****

Please return completed registration form to:

Kentucky Teachers' Retirement System ♦ 479 Versailles Road ♦ Frankfort, KY 40601-3800

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